



In the United States Patent and Trademark Office

Appn. Number: 10/647,078

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Applicants: Bruce Bradford Thomas and Lester Ware Preston, III

Title: Secondary Loss Expense Coverage

GAU: 3626

Trumbull, CT, March 12, 2007

Prior Art

Commissioner for Patents

PO Box 1450, Alexandria, VA 22313-1450

Dear Sir or Madame:

Last week, we discovered an example of prior art of which we are making the Patent Office aware. This prior art is a "Total Plus" policy that was sold by Gillis, Ellis & Baker, a copy of which is included with this letter. This policy was meant to cover losses in excess of the primary insurance that was purchased.

In the terminology that we use in our patent filing, this coverage specifies a nonproportional, binary relationship with the payment function of a pre-specified insurance policy. This policy will pay the dollar amount specified in the declarations, only if a property covered by the primary insurance policy is totally destroyed by fire and is rebuilt at that location or pay 80% of the specified amount if the building is rebuilt at another location.

One reason binary, non-proportional coverage policies have not gained widespread acceptance is that it is unclear what the price should be for this coverage. A second reason is that having a lump-sum payment conditioned on reaching some particular threshold of loss, creates the potential for morale hazard on the part of the buyer as the loss approaches that threshold. Most buyers do not find this type of coverage particularly attractive since they do not expect to suffer a complete loss of their property.

Sincerely,

Bruce B. Thomas
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3626

12

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